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# Ten Year Update on Lincoln County, Oregon's Economy

prepared by:

**The Research Group, LLC**

prepared for:

**Lincoln County Board of Commissioners**

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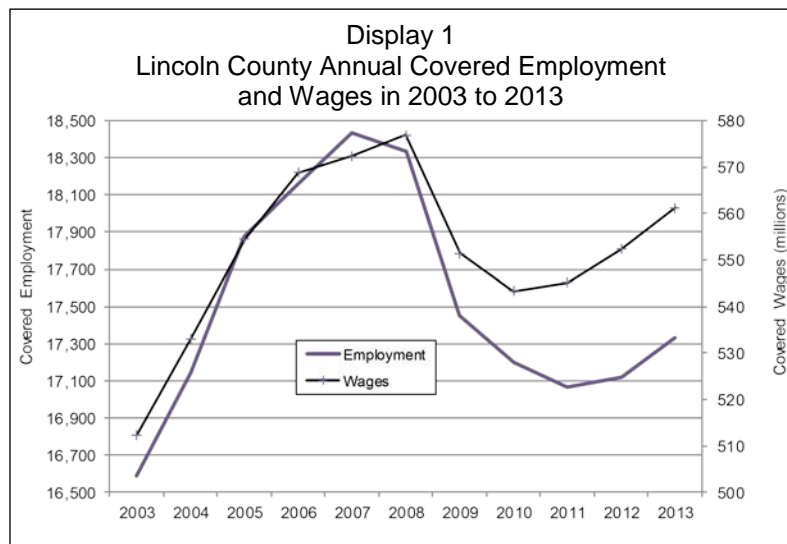
## SUMMARY

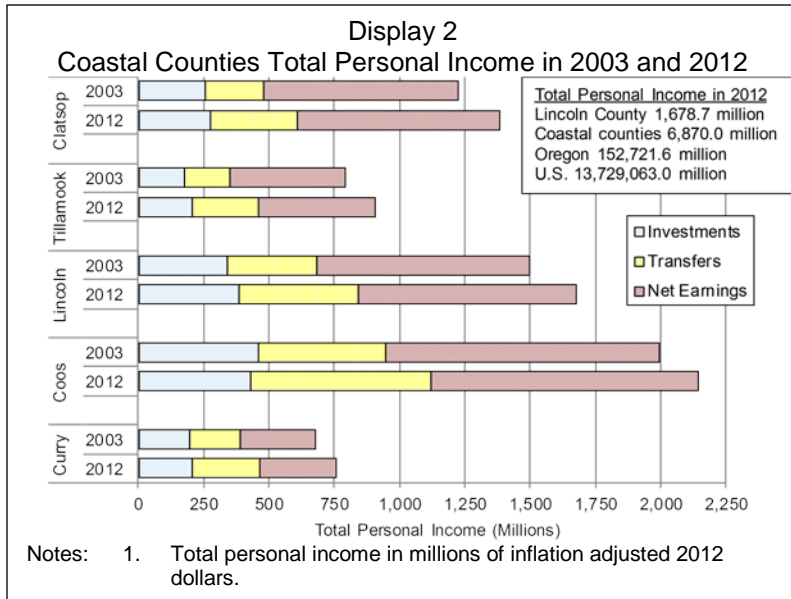
**Onno Husing, Director, Lincoln County Planning and Development Department**

### Background

The Research Group, LLC (TRG) prepared a report for the Lincoln County Board of Commissioners. The report contains results from a ten year check-in on recent economic and social indicators in Lincoln County, Oregon. The front cover of the report features a graph (see Display 1) that speaks volumes about Lincoln County's economy. The graph shows two trend lines and both lines are trending upwards over the last several years. One trend line represents "Covered Employment." The other line represents "Covered Wages." The income line is outpacing the upward movement of the employment line. *This trend suggests Lincoln County has experienced a surge in family wage jobs in the last few years.*

Inside the report you will also find a number of important "pie charts" and "bar charts." Like a chest X-ray, these representations illustrate what's happening to the *different sectors* within Lincoln County's economy over time. The report tells us a compelling story.



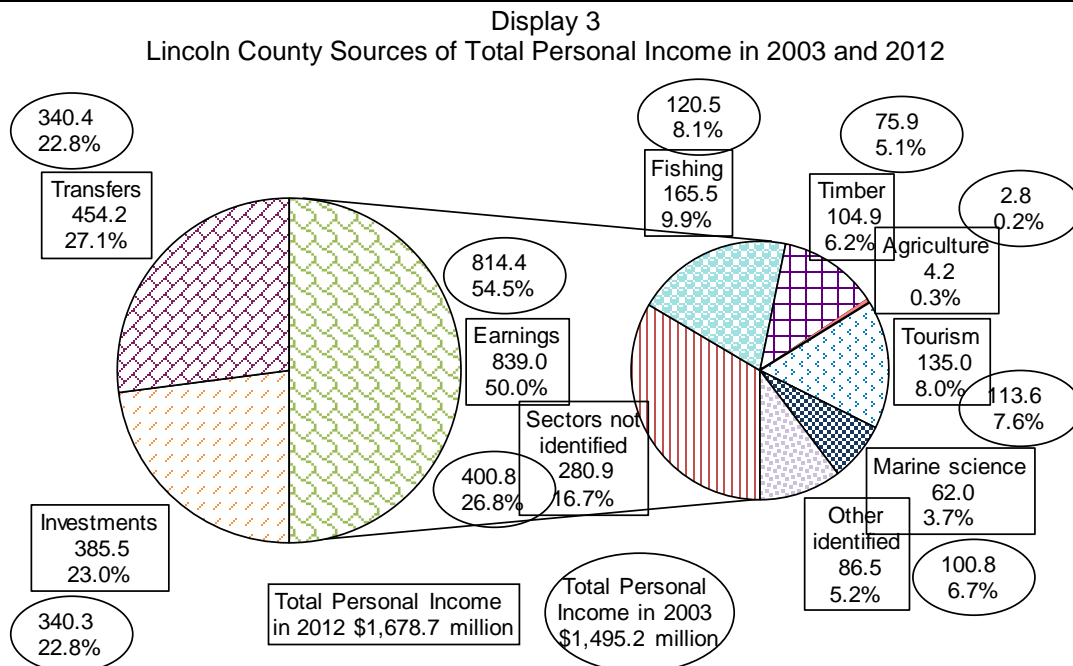


**A Larger and More Resilient Economy**

First, before we go any further, let's glance at Lincoln County's *total personal income* in 2003 and 2012 (see Display 2). Over this period, income from all sources rose from \$1,495.2 million to \$1,678.7 million or 12 percent (after adjustment for inflation). That's pretty remarkable given the severe recession that gripped the nation starting in 2008.

Second, Lincoln County's economic recovery rate followed the recovery rate for the national economy. Twenty years ago, after a recession, Lincoln County's economic recovery rate would have lagged well *behind* the national economic recovery rate. Today, because Lincoln County's economy is more diverse and resilient, this last recession was *not* as severe in Lincoln County as it would have been in the past.

Third, let's highlight the performance of the different sectors of Lincoln County's economy (see Display 3). From 2003 to 2012 the personal income (again, adjusted for inflation) generated by



Notes: 1. Economic contributions are measured as total personal income in millions of inflation adjusted 2012 dollars. Pie slices that have boxed annotations are 2012 data year and circled annotations are 2003 data year.

commercial fisheries jumped by 37 percent. Timber harvest increased 38 percent during this 10 year period. Income from the tourism sector increased 19 percent. Income from agriculture, increased by 50 percent (agriculture still remains a small part of Lincoln County's economy).

Fourth, the two other major slices of the economic pie, *transfer payments* and *investment income*, grew substantially.

**Transfer payments** include income from social security payments, veteran's benefits, Medicare-Medicaid, retirement programs for federal, state and local employees (and other government programs such as unemployment insurance and food stamps). Transfer payments increased 33 percent from 2003 to 2012.

**Investment Income** includes income from 401k's, IRA's, and rents. Investment income increased 13 percent from 2003 to 2012.

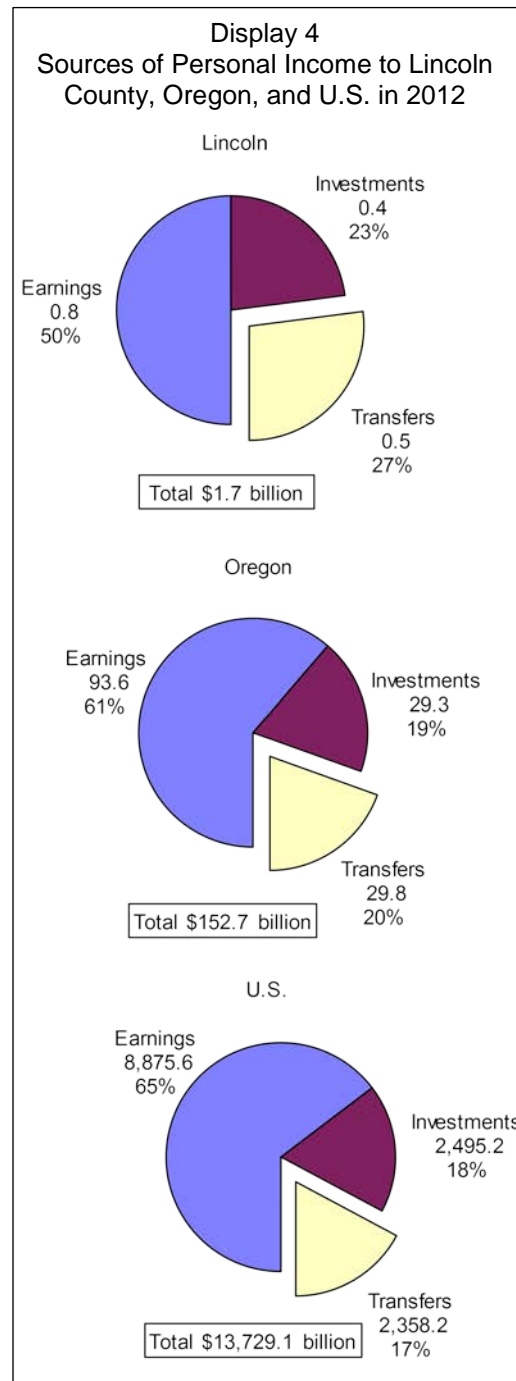
Together, these two sectors comprise *nearly half* of Lincoln County's economy (see Display 4). In comparison, the State of Oregon as whole, transfer payments make up 20 percent of the economy and investment income makes up 19 percent of the economy.

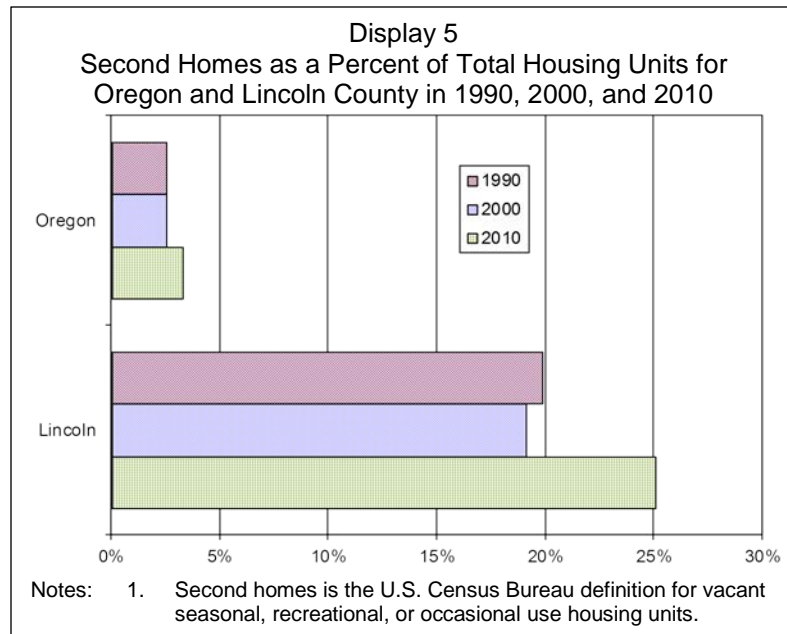
### An Expanding Retirement Sector

Investment income and transfer payments can serve as proxies to examine the impact of the *retirement community* ("the retiree effect"). With each passing year, the retirement population in Lincoln County becomes an increasingly significant part of our economy and culture.

This report also documents the significant increase in the numbers of *second homes* being built in Lincoln County (see Display 5). Some of the property owners who invest in a second home will, eventually, retire to these dwellings. Other people investing in these "second homes" do so strictly for income-generation. "Second homes" purchased for investment income often end up as vacation rentals.

In addition, during the last two years, Lincoln County experienced a renewed demand for *high-end homes*. That's an encouraging development in Lincoln County.





The people who buy or build these upscale homes bring substantial amounts of discretionary income and social capital to Lincoln County. The Central Oregon Coast is attracting individuals who want to live in a beautiful setting, near a beach, a place with interesting things to do, an hour or so drive from the I-5 corridor. And, let's be honest. Compared with many other coastal regions in America, *upscale* properties in Lincoln County are still relatively affordable.

In the past, many retirees settling on the Oregon Coast did *not* have the resources that these wealthier retirees command. This new generation of retirees is having *a different and a more positive impact* on Lincoln County's economy than previous generations of retirees. One insightful local leader recently commented, "These people are less likely to vote down school bonds and more likely to support projects that enhance the quality of life in our communities."

In addition, because of the widespread availability of broadband communications, these days, residences in Lincoln County can serve as employment centers (home offices). Indeed, as they age, many people are electing to work (even part time) to supplement their income, stay connected with their co-workers/clients, and, employ their professional skills on their terms.

All of these people, regardless of their circumstances (retired, partially retired, still working) are having a transformative impact on Lincoln County. Alas, in Lincoln County and elsewhere on the Oregon Coast, there has been very little analysis of the economic impact of these retirees. Therefore, we *don't* have good data on the retirement community. If we had better data we'd understand just how this demographic group is impacting our communities.

**An Expanding Marine Science Cluster**

The highest profile story about Lincoln County's economy is the expansion of the ocean/marine science cluster. In August 2009 it became state-wide news when the National Oceanic and Atmospheric Administration (NOAA) announced they were relocating their West Coast Marine Operations Center (MOC-P) from Seattle to Newport. Two years later, August 2011, with much fanfare, the opening ceremonies for MOC-P were held in Newport.

This historic opportunity built upon a legacy of far-sighted strategic investments that started with the establishment of the Hatfield Marine Science Center (HMSC) during the 1960's. The presence of HMSC and other Oregon State University (OSU) programs, the state/federal agency

facilities (EPA Labs, National Marine Fisheries Service, Oregon Department of Fish and Wildlife), the Oregon Coast Aquarium, this critical mass made Newport a wise choice for NOAA. The other compelling factor was the Yaquina Bay's central location on the West Coast. It is an ideal place to serve NOAA's west coast marine research needs.

As hoped, the synergies that made MOC-P possible are gaining strength. Last year, Ed Ray, the President of OSU, announced OSU's plans to expand its academic program to support 500 students at HMSC in Newport within five years (including the creation of a world class Marine Mammal Institute). OSU just announced a \$20 million challenge gift has been made toward that project (approximately \$45 million more is needed). In addition, in 2012 the Oregon Museum of Science and Industry (OMSI) purchased a 29 acre property in close proximity to HMSC for a marine science camp (with lodging and dining facilities for 150 children, families, and school groups, serving 5,000 people a year). In 2004, voters in Lincoln County passed a bond measure to build three campus facilities for the Oregon Coast Community College (OCCC). OCCC's main campus property, located near HMSC, has enough space to accommodate future expansions (OCCC boasts a well-regarded aquarium science program).

The authors of this report documented the scale of economic activity related to marine science. In previous economic reports about the Oregon Coast's economy prepared by TRG that exercise had *not* been done. In 2003, personal income from marine science in Lincoln County was mostly included in a larger summary category called "other identified industries." (The category includes paper and paperboard mills; water transportation and marine cargo; ship building, steel fabrication, and other heavy construction; and other identifiable industries such as government, research, communication, special education, and military in addition to marine science.) The 2003 personal income for this category was \$100.8 million (expressed in 2012 dollars). The marine science subsector for the "other identified industries" category is calculated in 2012 to be \$62.0 million. So, from 2003 to 2012, the "other identified industries" category, which includes marine science, increased from \$100.8 million to \$148.5 million. Expressed differently, in the last decade the marine science subsector spearheaded the "other identified industries" sector from being 6.7 percent of Lincoln County's economy to 8.8 percent of the economy. This is a 47 percent increase over the last 10 years in this sector.

### **Intra-Lincoln County Differences: Geography Matters**

Economic studies prepared at a county or regional scale are *not* likely to recognize important sub-geographical differences within a county or a region. This report, however, teases-out economic data from communities *within* Lincoln County to ensure that important intra-county economic dynamics are not overlooked. Here's what the data tell us.

First and foremost, Lincoln County is a diverse place. Geography matters. Most of the population centers (cities and unincorporated communities) are clustered along the U.S. Highway 101 corridor near the Pacific Ocean. Income distribution in Lincoln County is *not* uniform.

Inland portions of Lincoln County (in the Coast Range) are dominated by timber lands. Out of a total 634,000 acres in Lincoln County, 572,000 acres (***90 percent of the acreage***) are classified

Zoning	Acres	Percent
Forest	572,000	90%
Urban	18,500	3%
Farm	14,000	2%
Rural	12,000	2%
Other	17,500	3%
Total	634,000	100%

as forest zoning (see Display 6). The Siuslaw National Forest comprises 172,000 acres in Lincoln County. Today, the majority of privately-held timberland in Lincoln County belongs to large companies such as Hancock Timber Resource Group and Plum Creek. These large firms manage timberlands to maximize returns for their investors (e.g., institutional investors such as pension fund managers). This is a different economic model than the wood products companies of yesteryear when companies owned and managed timberlands to supply raw product to

their mills. In addition, the Confederated Tribes of the Siletz Tribe own 15,204 acres in Lincoln County.

Only two percent of Lincoln County is zoned for agriculture. Agricultural lands are found along the narrow river valleys in Lincoln County. For that reason, agriculture will play a relatively small role in Lincoln County's economy (although, at present, these lands are underutilized). Only three percent of Lincoln County lies within incorporated areas (18,500 acres). Over time, as cities in Lincoln County expand their urban growth boundaries (UGB's), the percentage of "urbanizable" land in Lincoln County will grow (modestly). Oregon's land use program places significant constraints upon what can take place in Lincoln County. The program protects timber lands and agricultural lands and other coastal ecosystems. From an economic development perspective these land use controls should be seen as a tremendous asset. The land use system protects the quality of life in Lincoln County while leaving a sufficient supply of land available for development. So far, most people believe a proper balance has been struck between development and preservation and that the system is working.

This report documents how the presence of ports really matter economically. Two places in Lincoln County facilitate access for vessels to the Pacific Ocean. Depoe Bay hosts a small harbor which supports a significant volume of tourism activities (recreational fishing and whale watching). The Port of Newport is the only *deep water* port in Lincoln County. The river corridor, from the City of Toledo (and the Port of Toledo) down to Newport, hosts a variety of marine-services sector businesses with highly skilled employees. These highly competitive marine service businesses serve the local fishing fleet and the distant water fishing fleet (that spends significant portions of the year fishing in Alaska) and other ocean users.

The paper mill in Toledo supports many family wage manufacturing jobs. A big reason the paper mill in Toledo is still in business is the web of irreplaceable infrastructure that was constructed during the 1950's (senior water rights on the Siletz River, Olalla reservoir, an ocean outfall to discharge waste). In addition, a rail line connecting Toledo to Albany developed during the late 1800's delivers wood chips to the paper mill from around the West.

This report documents the profound income differences in the levels of prosperity within different communities in Lincoln County (see Display 7). The "North County" (Lincoln City and adjacent areas) has *not* achieved the levels of prosperity that other parts of Lincoln County reached (\$29,000 for Lincoln City vs. \$49,000 for Newport vs. \$39,000 for the entire County). Why do such income disparities exist in Lincoln County?

One reason for this disparity in income is Lincoln City/the North County does *not* have a deepwater port. As a result, the economy in the northern County is more reliant upon the tourism sector. In general, the tourism sector pays lower salaries than many other sectors of the economy. On the other hand, though, North Lincoln County is closer to the Portland-Metro Area and Salem. That's an important factor. The economic ripple effect from the Portland-Metro area is more pronounced in North Lincoln County than elsewhere in Lincoln County.

Display 7  
Intra-County Income Distributional Differences in 2012

	Median Income	Families Poverty	Sources of Income			
			Earnings	SS	Retirement	SNAP
Oregon	\$50,036	10.8%	77%	30%	18%	17%
Lincoln County	\$41,996	11.0%	67%	42%	21%	19%
Newport	\$47,270	13.6%	72%	36%	18%	19%
Lincoln City	\$29,686	15.5%	64%	41%	19%	22%
Toledo	\$45,230	16.3%	84%	27%	8%	30%
Waldport	\$35,889	10.0%	57%	50%	25%	27%
Depoe Bay	\$43,382	9.8%	72%	36%	18%	19%
Siletz	\$37,188	22.5%	72%	36%	12%	28%
Yachats	\$42,396	2.0%	66%	54%	34%	12%

Notes: 1. Median income for households. Sources of income is the proportion of households.  
 2. Poverty proportions are proportions of families. Example poverty threshold for a two children and two adult family is about 50 percent median income.  
 3. Sources of income acronyms: SS – social security, SNAP – food stamp.

People who want *to live and work* on the Oregon Coast, but need access to the upper Willamette Valley, will be drawn to the North County area.

As a result, future transportation investments in Highway 18 (the Newberg-Dundee corridor and Highway 22 to Salem) will be crucial to the development of North County. Increased congestion on Highway 18 and Highway 22 will undermine the locational advantages of the North County. Alas, the outlook for additional transportation funding at the state and federal level to address looming capacity issues is not promising. So, that's a big concern.

In contrast, looking further south in Lincoln County, the Highway 20 improvement project (Pioneer Mountain-Eddyville) will be completed in the fall of 2016. When that major project is completed the Highway 20 corridor (Newport to Corvallis) will become one of the best-safest travel routes to the Oregon Coast. As a result, Lincoln County's economic and social ties to Corvallis, Benton County, and the entire Willamette Valley (including the Metro Area) will further strengthen.

**Bullish on Lincoln County**

It is hard not to be bullish about Lincoln County. Lincoln County is blessed with tremendous natural assets. The beauty and bounty of our coastal environment, the natural resources (fisheries, agriculture, forest products), the short travel distances to the I-5 corridor/the Metro Area, combine to make Lincoln County an inherently competitive location.

However, the other big reason Lincoln County is experiencing success is *the social capital* of Lincoln County. When called upon to make strategic investments in their community the residents of Lincoln County have delivered.

A number of examples come to mind. Recent investments in the three community college campuses and a general obligation bond passed by Lincoln County's School District must be noted. Securing the funding from Oregon Transportation Commission (OTC) for Highway 20 improvement projects took unity and sustained advocacy by community leaders. The voters approved the Port of Newport's overhaul of the deepwater terminal. The Port of Toledo secured public resources to purchase and expand a critically important boat yard and that action cemented the future of the marine services cluster along the Yaquina River. The City of Lincoln City completed several major aesthetic improvement projects along the U.S. Highway 101 Corridor within the City of Lincoln City. Recently, the City of Lincoln City also purchased a large block of land within the city limits. That strategic property will serve a number of important public and private sector purposes. There are other examples of local leadership too numerous to mention in this introduction. Again though, time after time, in circumstance after circumstance, the residents of Lincoln County stepped up to help themselves succeed.

People in Lincoln County, though, understand there's more work to do. For example, achieving the full potential of the airport in Newport (attracting and retaining commercial air service providers to PDX) is a challenge worth tackling. It may take expanded partnerships to accomplish that objective. The judicious use of urban renewal funds by our cities can improve the curb appeal of our downtowns. That, in turn, will stimulate investment. Completing the expansion of OSU campus in Lincoln County, as soon as possible, is another opportunity within our grasp. Indeed, when you live here, and you track what's going on, you get an unmistakable feeling that Lincoln County's best days are directly ahead.

Ensuring the economy in Lincoln County works for everyone will continue to be a challenge. Lincoln County is not immune to national trends of income inequality. However, the investments in education infrastructure (cited above) have laid the groundwork to expand economic opportunity. Nothing could be more important than ensuring that motivated people can get the skills they need to succeed in this 21<sup>st</sup> Century economy. Looking ahead, we can probably do more to leverage the talents of the remarkable people who live in Lincoln County (and the people electing to move here).

### **Bibliography**

The Research Group, LLC (TRG). Ten Year Update on Lincoln County, Oregon's Economy. Prepared for Lincoln County Board of Commissioners, Newport, Oregon. August 2014.